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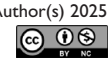
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Neoliberalism, Informal Employment and Post-Communist Economies: A Tale of a Debt-Seized Worker

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Abstract

This article examines the impact of neoliberal economic policies on workers in post-communist economies, with a particular focus on the rise of informal employment. Using the life story of David, a worker in the Czech Republic, we trace the trajectory of labour precarity from the 1990s to the present. During the 1990s, the rapid opening of the personal credit market – without adequate regulatory safeguards – led to a surge in household debt. At the same time, unemployment, previously non-existent due to the state's system of compulsory employment under communism, became a widespread issue. As a result, a significant number of workers found themselves trapped in a cycle of debt enforcement, which in turn pushed them into informal employment as a means of survival. Through his case, we argue that debt functions as a structural mechanism that entrenches informality, further reinforcing the asymmetrical power relationship between capital and labour in post-communist economies.

Keywords

informal employment, neoliberalism, post-communist economies, wage seizure

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Introduction

Interest in informal employment and neoliberal economic policies continues to grow, driven by mounting concerns over economic inequality and the deregulation of labour markets (Evans and Tilly, 2015). This increasing attention reflects the expanding body of literature on informal employment and industrial relations (Chan et al., 2019; Eaton et al., 2017; Gouzoulis, 2023; Siegmann and Schiphorst, 2016).

Rather than existing as a separate economic sphere, informality remains an integral feature of contemporary capitalism. This perspective challenges the conventional dichotomy between formal and informal work by illustrating how informal employment is embedded within capitalist structures, particularly through mechanisms such as outsourcing and downsizing in deregulated global markets. It suggests that many workers enter the informal economy out of necessity, particularly during periods of economic transformation (Davis, 2006; Gallin, 2001; Taiwo, 2013). In contrast, neoliberal proponents argue that participation in the informal economy is often a voluntary choice, driven by individual preferences rather than structural constraints (Becker, 2004). This perspective – endorsed by international institutions such as the World Bank and the International Monetary Fund – continues to shape national policies aimed at addressing informality through tax reductions, anti-corruption measures, and labour market deregulation (De Soto, 2000).

Although neoliberal economic policies have led to a significant paradigm shift and have profoundly impacted informal employment, there has been limited critical engagement with these effects – especially in post-communist economies (Williams, 2015). Williams (2015) explores how employees across Eastern and Central European nations supplement declared wages with undeclared payments – commonly referred to as 'envelope wages' in post-communist contexts. However, existing studies have yet to explore the role of debt-seizure in driving the growth of undeclared wages and informal employment. Debt-seizure is a relatively new phenomenon in post-communist economies; however, it closely resembles the 'debt trap' in Western economies during the 1950s, before robust credit market regulations were introduced (Williams, 2004).

We argue that existing studies fail to fully account for how the intersection of a deregulated labour market and an unregulated personal credit market fosters the emergence of debt-seized workers. This dynamic not only exacerbates informal employment and undeclared wages but also reshapes capital – labour relations in profound ways. This article addresses this gap by examining the lived experience of one such worker, David, and providing a detailed account of his struggle with debt and informal employment during a critical phase of economic transition in the Czech Republic.

We begin by critically examining how the deregulation of labour and credit markets, coupled with the expansion of personal debt, has fuelled the growth of informal employment in post-communist economies – highlighting the Czech Republic as a key site where neoliberal economic reforms have produced uneven development and intensified precarity for workers. We then turn to David's narrative, which illustrates how he navigates the newly liberalised credit market, engages in informal employment, and relies on undeclared wages in his effort to sustain a livelihood within this shifting economic terrain.

Neoliberalism, debt seizure and informal employment

This article examines neoliberalism as both a shift in economic policy and a strategic withdrawal of the state from the regulation of capital (Chiapello, 2017). Central to this process has been the active deregulation of capital and labour markets, enabling the expansion of market logics while systematically dismantling protective frameworks for workers. Harvey (2005) contends that such deregulation has profoundly reshaped workers' lives, particularly by deepening their dependence on debt. As regulatory and welfare safeguards are eroded, financial institutions and corporate interests increasingly permeate and govern everyday life.

Research has shown that rather than securing fair wages, workers have been encouraged to take on personal loans, credit card debt, and mortgages to finance their needs (Williams, 2004). In economies across both the Global North and South, this has led to rising inequalities as workers struggle to meet debt obligations while banks and corporations accumulate record profits. As a result, debt becomes not just an economic burden but also a disciplinary mechanism enforcing worker compliance (Gouzoulis et al., 2023a). The decline of strong labour protections and the rise of precarious employment have trapped workers in cycles of debt. Gouzoulis (2023) concludes that as indebtedness rises, workers' capacity for resistance diminishes, leading to a decline in industrial action. This finding carries significant implications for labour relations, policymaking, and worker empowerment strategies (Chan et al., 2019). Furthermore, studies show that debt-related hardship often forces workers to take on additional temporary or part-time jobs to supplement their income (Gouzoulis et al., 2023b; Karacimen, 2015).

Informal employment is frequently linked to insufficient state intervention in labour markets and welfare systems. Debt-seized adults, a consequence of unregulated personal credit markets, constitute a crucial segment of the informal workforce (Ahmad, 2008; Chan et al., 2019; Karacimen, 2015). Lacking viable alternatives, these vulnerable populations are driven into precarious, sweatshop-like employment (Davis, 2006; Slavnic, 2010; Taiwo, 2013) or coerced into 'false' self-employment out of necessity (Ahmad, 2008; Geetz and O'Grady, 2002). In this context, the state is not merely a passive actor enabling markets to function but an active participant in supporting capital interests (Chiapello, 2017). Scholars argue that the informal economy serves as a survival mechanism for marginalised populations excluded from formal employment and welfare provisions, a condition shaped and reinforced by state policies (Lee et al., 2020; Sassen, 1996).

Previous research in post-communist economies identifies several factors contributing to the prevalence of informal employment, including weak state protections, ineffective trade unions, and the deregulation of public authorities (Frege, 2000; Prosser, 2016; Upchurch et al., 2015; Woolfson, 2007). Woolfson (2007) highlights the critical role of well-organised trade unions in combating informal employment. Expanding on this argument, Frege (2000) demonstrates how the legacy of communism, combined with weak state protections, has resulted in ineffective trade union movements and deteriorating working conditions. Additionally, Prosser (2016) contends that structural factors, such as non-compliance with labour laws, significantly contribute to precarious work, highlighting the role of deregulatory strategies employed by public authorities in facilitating informal employment.

In this article, we demonstrate how debt-seized workers find themselves pushed into informal employment just to survive in the absence of personal credit safeguards and deregulated labour markets. We argue, as illustrated by David's narrative, that debt functions as a mechanism perpetuating informality and reinforcing the asymmetric power relationship between capital and labour.

The role of the neoliberal state and debt seizure

Following the collapse of the Iron Curtain, Central and Eastern European states embarked on reconstructing their market economies. Epstein (2008) argues that post-communist economies hastily implemented neoliberal reforms, transitioning from a strong state-driven economy to one dominated by market forces. Some nations, driven by aspirations for EU membership, deregulated their markets and opened personal credit markets without adequate legislative protections to facilitate the influx of Western goods and services (Kennett, 2021). Consequently, consumers in post-communist economies, including the Czech Republic, were suddenly exposed to Western goods and easy access to credit – often without sufficient safeguards – leading to widespread personal bankruptcy and the emergence of a debt-seized adult population (Sedláková, 2012).

After 1989, the labour market in transition economies across Central and Eastern Europe underwent significant changes. Employment became increasingly precarious in the years following the collapse of communism, particularly in terms of job security, remuneration, and working conditions (Večerník, 2007). Structural shifts also took place as the economy transitioned from state-owned heavy industry to more market-oriented manufacturing and service sectors. Unemployment, previously non-existent due to the state's system of compulsory employment under communism, became a widespread issue. Limited corporate governance experience and the loss of former Soviet bloc markets created economic difficulties for many firms, leading to their collapse – particularly following the imposition of strict budget constraints on banks and the radical limitation of credit in 1997 (Večerník, 2007). The initial optimism surrounding the post-communist transition to capitalism was short-lived, as adverse economic and social consequences for workers quickly became apparent (Kennet, 2021).

Before 1989, private loans were rare, and there was minimal demand for personal credit, civil enforcement, or bankruptcy legislation in communist economies. The majority of the population had no prior experience with personal loans, and debt collection agencies were virtually non-existent. However, with the liberalisation of the credit market, access to individual credit increased sharply, coinciding with rising unemployment across Central and Eastern Europe (Czechs in Law, 2019; Hawerlandova, 2014). The Czech Republic was no exception. This period witnessed a rapid accumulation of household debt, some of which remains unresolved, as illustrated in David's narrative. The unregulated personal credit market emerged without adequate safeguards for debtors. Until 2008, civil enforcement and debt collection were primarily governed by the Civil Act of 1963, which was originally designed for state-owned enterprises. Newly

unemployed individuals and young adults, such as David, took out personal loans despite lacking any credit history.

The broader economic impact of these developments is evident in the household share of total debt, which increased from 10% in the early 1990s, following the transition, to 36% by 2006 (Czech National Bank, www.cnb.cz). By 2017, over 850,000 people in the Czech Republic were subject to foreclosure, representing 8.1% of the population. Only 114,000 individuals (13.2%) sought personal bankruptcy, meaning that a significant proportion of the adult population remained debt-seized and vulnerable, with profound ramifications for social conditions, the labour market, and housing. Many adults were compelled to engage in informal employment, as demonstrated by David's experience.

Predictably, as part of a neoliberal state, public agencies in the Czech Republic also became active participants in the debt market, issuing fines and subsequently selling them to private debt collection agencies (Lesková, 2021). Small unpaid fines frequently escalated into substantial debts, which were then routinely sold to private debt collection firms (Lesková, 2021). A media report highlighted that many minors began their adult lives pursued by bailiffs and debt collection agencies, much like David. According to the report, 3476 children were subject to debt collection processes by bailiffs, with 2200 of them younger than 15 years old at the time (Czech Television, 2019). The report demonstrated how a fine of 208 CZK (approximately £7) could escalate to 80,000 CZK. These public debts were transformed into private debts, further pushing individuals into informal employment.

Debt collection in the Czech Republic was historically unregulated and continues to favour creditors, with some studies referring to it as an 'execution market' – a term that highlights the aggressive and often exploitative nature of debt enforcement practices. Debts are traded for profit, often without sufficient protection for debtors. Common practices include the rapid accumulation of interest and fees, lack of transparency in legal proceedings, and sudden enforcement actions such as wage garnishments or property seizures without prior debtor notification (Štika and Valenčík, 2019). In this execution market, debt collection agencies emerged as a relatively new phenomenon for many Czechs. Debts were sold for profit, and until 2024, these agencies operated without requiring a special licence. In many instances, debt collection agencies were not legally required to issue pre-action notices before obtaining court orders, leaving debtors unaware of legal proceedings against them. Consequently, many debtors only became aware of their outstanding debts upon the arrival of bailiffs. Once notified, they were typically granted only 15 days to settle their debts. Failure to pay within this period resulted in additional fines and excessive charges, including high interest rates, administrative fees, and penalties that often multiplied the original debt amount, further exacerbating financial difficulties (Exekuceinfo.cz, 2023).

It was not until 2008 that the government introduced consumer bankruptcy legislation through the Insolvency Act to provide debtors with a legal pathway to resolve unpaid debts (Paseková et al., 2016). In 2013, Parliament adopted the Enforcement Code, which introduced several reforms, including pre-trial summons, consolidation of foreclosures, and provisions to prevent the impairment of spouses' accounts and wages. However, the legislative framework remained insufficiently robust to protect borrowers. Between

2015 and 2024, the Insolvency Act underwent several amendments to improve the handling of personal bankruptcy cases. David, for instance, benefited from the provisions introduced in the 2018 amendment. Nevertheless, as of 2023, the number of individuals subject to foreclosure remained high, with 650,000 people affected (Executor's Chamber of the Czech Republic, 2023; Williams, 2015).

Debt-seized workers, seeking to evade repayment obligations, frequently resort to informal employment and undeclared wages, as their official incomes are subject to garnishment, leaving them with little to no disposable income. Limited access to stable employment opportunities, barriers to securing new jobs due to poor credit histories, and employer reluctance to hire debtors further restrict their options, making informal work one of the few viable means of earning a livelihood. These financial constraints force them into precarious working arrangements, exposing them to exploitation by employers who offer low wages and require them to work irregular hours for cash payments, often without legal protection or job security.

The outsourcing of work from Western European companies contributed to a decrease in unemployment in the Czech Republic, which fell to 2.2% in 2019. However, with low unemployment, companies struggled to recruit workers, leading some firms to reject orders. Rising wage demands also posed challenges to remaining competitive (Debiec, 2019). In response, many companies employed debt-seized workers, offering them lower wages, cash payments, and flexible but insecure working conditions, thereby enabling the extraction of surplus labour.

By examining these structural conditions, this article illuminates how contemporary working conditions exacerbate workforce precarity. Key contributing factors include deregulated credit expansion, weak labour protections, and policies that prioritise creditors' rights over worker security, fostering financial and employment instability. We argue that these neoliberal reforms contribute to the emergence of debt-seized workers, further entrenching precarity and intensifying workplace exploitation in post-communist economies. Drawing on David's lived experience as a case study, this article illustrates how debt operates as a structural mechanism that reinforces informality, deepening workers' vulnerability and restricting their bargaining power.

Introducing David

David was born in 1978 in Lanžhot, a small town in the former Czechoslovakia. He grew up with one sibling and, following his parents' divorce, the family faced significant financial difficulties during the early years of the post-communist transition. At 17, in 1995, after completing vocational school with a specialisation in electro-mechanics, David left home and rented a flat with a friend. By then, the Czech economy had opened up, marking the beginning of his journey into informal employment.

We first met David in 2022 through his former line manager, with whom we had been discussing the growing number of debt-seized workers in the Czech Republic. From his perspective, motivating these workers was challenging, as their official wages were largely seized by debt collectors and bailiffs. After approaching David and explaining our research intentions, we invited him to share his lived experiences as a

worker. He agreed and willingly disclosed details of his personal, financial, and employment struggles, though he requested anonymity for the companies he had worked for. Conversations with David began in 2022 and continued until 2024.

The meetings took place in a local restaurant near his home, where he felt comfortable. Conducted in Czech by one of the authors, all discussions were recorded, and David was given access to his statements for review. Additionally, his account was transcribed back into Czech for further revisions and accuracy. A total of eight meetings were held, each lasting between 60 and 120 minutes. David openly shared insights into his family background, education, work experience, job skills, leisure activities, hobbies, interactions with employers, debt history, encounters with the legal system, and experiences with debt collectors and bailiffs. He also reflected on how he managed his financial struggles over the years.

The opening of the personal credit market and David

In the mid-1990s, banks and retailers introduced personal loans for retail products, a concept that was largely unregulated at the time. Credit was extended to almost anyone, often without sufficient safeguards. Retailers in the 1990s made consumer goods highly accessible through easy credit. At just 19, I was able to purchase a washing machine, a refrigerator, and a phone without providing any documentation. Unbeknownst to me, this marked the beginning of a decades-long struggle with debt. At the time, I hadn't realised debt would shadow me for nearly my entire adult life.

Although I undertook part-time employment while receiving a small amount of unemployment support, my financial situation deteriorated following my year of military service, during which I was unable to pay my debts. After completing my military service, I moved back to my mother's home, assuming that my minor debt would resolve itself over time.

Taking advantage of the unregulated credit market, debts were sold to debt collection agencies, which significantly inflated customers' outstanding debts. No pre-action notices were issued. A bailiff unexpectedly served me with a court order for a CZK 36,000 (£1200) debt on my refrigerator, even though the original loan had been only CZK 2000 (£66). Further debt collection letters followed for other purchases. I did not understand why I was required to pay additional sums.

I relocated to Prague, securing employment at a local print workshop with accommodation. Shortly thereafter, a bailiff attempted to seize valuable household items from my mother's residence. In response, my mother removed my registered address from her home and transferred it to the city hall. Consequently, being 350 kilometres away, I was unable to receive correspondence from debt collection agencies and bailiffs, thereby losing track of my debts. They increased exponentially.

Like many others, I engaged in informal employment, which allowed me to avoid direct encounters with debt collectors. During this period, I worked as a bouncer at a local music club, lost all contact with debt collection agencies, and struggled to ascertain the exact nature of my liabilities. I encountered legal difficulties, accumulating further

fines, which exacerbated my financial burden and increased the risk of incarceration. I found many others in similar circumstances.

In 2005, I left Prague and obtained employment at an electrical manufacturing company located 30 kilometres from the city. The role was well-remunerated due to hazardous working conditions. I recognised that repaying my debts was necessary for securing improved employment opportunities and working conditions. However, with no legal support available, I returned to my mother's home after a year to reduce living costs and secured a position at a local rubber company.

Debt collection agencies relentlessly pursued me, enforcing wage garnishments that made it nearly impossible to afford basic necessities. I realised that it was unlikely that I would be able to repay all my debts through low-wage employment. Consequently, I sought self-employment and attempted to run a pub at a local sports facility, with my brother registered as the official proprietor to circumvent debt seizures. My business thrived at first, but the 2008 financial crisis triggered a sharp decline in consumer spending, making survival impossible and ultimately leading to bankruptcy.

Following the closure of my business, I moved to Zlín with my partner and secured employment at a local tyre factory, working continuous production shifts, including evenings and nights. I had very few options to avoid wage garnishments by bailiffs. To mitigate these challenges, I sought higher-paid employment and moved to morning shifts, enabling me to undertake additional part-time work. Each time I changed employment, it took several months for bailiffs to locate me, temporarily relieving me from wage deductions due to processing delays. However, they exploited these administrative gaps by inflating service charges, deepening my financial distress. Although I contested these charges, my complaints were ignored.

I supplemented my income by undertaking additional formal and informal work. Without this extra income, I would not have been able to survive. I worked as a maintenance operative in the apartment building where I resided, undertaking various tasks such as electrical work, roofing, and construction. Additionally, I rented a garden and sold surplus produce while also engaging in various other forms of weekend work.

Debt collectors and David

I experienced numerous instances of exploitation by debt collection agencies. Upon entering military service, my debt stood at approximately CZK 5000 (£145). Several months after completing my service, I contacted the debt collection agency to arrange repayment, only to be informed that my debt had increased to CZK 68,000 (£2267). Debt collection agencies and bailiffs systematically imposed excessive service fees, fines, and interest, ensuring that debts remained virtually insurmountable. This appeared to be a deliberate strategy to entrap debtors in a cycle of repayment and further penalties. Despite making multiple repayments, I found my debt never truly diminished, as collection agencies continuously added new charges. Missed payments triggered further penalties, creating an endless cycle of indebtedness. In some cases, debts were subdivided to justify the imposition of additional service fees, while bailiffs frequently transferred debts between agencies to introduce further charges. Keeping track of these fragmented debts became nearly impossible. Regulatory reforms in 2024 finally curtailed these

exploitative debt collection practices, yet for thousands like me, such measures arrived too late to undo years of financial hardship.

Employers, David and continued informality

To remain competitive, many Czech employers relied on cheap labour and paid wages partially in cash, despite the legal risks. For workers like me, this system provided a crucial means of reducing wage garnishments imposed by debt collectors.

I continually sought employment with companies offering higher cash-based salaries. My most recent employer valued my versatility in electrical work and masonry, offering opportunities for overtime, cash payments, vouchers, and other in-kind benefits. My employer understood my personal circumstances and provided various forms of support, recognising that reliable and skilled employees were difficult to find in the contemporary labour market. I was willing to undertake additional tasks, including working unsociable hours. This arrangement ended with my incarceration in 2018 for offences committed years earlier in Prague.

During my imprisonment, I availed myself of the personal bankruptcy legislation introduced in 2018, which enabled me to be discharged from my debts following a one-year insolvency process. As part of this process, I repaid CZK 180,000 (£6000) owed to government agencies. The remaining debt, approximately CZK 580,000 (£16,666), was never claimed by other debt collection agencies and, as far as I am aware, effectively disappeared.

I sought assistance from a specialised non-profit organisation that supports prisoners in addressing debt-related issues. Upon my release in 2021, I resumed employment with my previous employer and continued repaying all outstanding debts. Having successfully completed the one-year insolvency process, I ultimately became debt-free.

Final words

After 27 years of financial hardship, I was relieved to be free of debt. I was willing to work under any conditions to maintain employment. I was finally able to work as a typical employee, free from the necessity of working weekends or unsociable hours. Though I became debt-free, my experience exemplified the systemic inequalities embedded in personal credit markets and labour markets, which continued to trap and exploit debt-seized workers for decades. My debt became my own prison, forcing me to continue engaging in informal employment. After finally escaping foreclosure, my net monthly wage rose to CZK 39,800 (£1300), excluding bonuses and overtime – one and a half times what I earned under debt enforcement. Yet, the years of struggle underscored how debt-seized workers find themselves pushed into informal employment simply to survive.

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